



**Five Pawns**

SIGNATURE VAPOR LIQUID

California

# Five Pawns Meeting with The OMB Discussing the Financial Impact of the FDA's Proposed Deeming Regulations

Presenting on behalf of Five Pawns are:

Rodney Jerabek, CEO

Rob Fitzgerald, CFO

# Five Pawns: Who We Are

- California based e-liquid manufacturer
- Currently employs 42 people
- We sell our products in over 1,400 retail locations throughout all 50 states and export our products to an additional 1,000+ locations throughout 50 countries
- Manufactures in a state-of-the-art ISO 8 cleanroom facility and have implemented quality systems to insure consistency, traceability, and accountability for all our products
  - Standards: ISO 9001 and GMP (awaiting final audits and certifications in early 2016)
- Met with the FDA earlier this year to help better educate them on the industry's efforts in keeping this product in the hands of legal age consumers

# Probable Implications of the Proposed FDA Regulations

- Eliminates 99.9% of the industry as we know it
  - Manufactures, Product Suppliers, and Retailers
- Eliminates billions of dollars in Federal, State, and Local tax revenue
  - According to many analysts, electronic cigarette sales are expected to grow to over \$50 billion by 2025
  - The proposed regulations will eliminate the potential for Federal, State, and Local governments to generate tax revenues from these products
- Eliminates tens of thousands of jobs
  - The Electronic Cigarette Industry has created tens of thousands of jobs over the past 5 years despite the sluggish job recovery since our latest economic downturn
  - These employees and their families will be dramatically affected which will have substantial fiscal ramifications on the overall economy

# Probable Implications of the Proposed FDA Regulations

- Unnecessary Healthcare Costs
  - According to The Campaign for Tobacco-Free Kids the US spends approximately \$170 billion in tobacco related healthcare costs per year
  - Public Health England's recent published study states electronic cigarettes are estimated to be 95% less harmful than smoking
    - This would save Medicare, Medicaid, Health Care Providers, and individuals billions of dollars in unnecessary healthcare costs annually
    - This could also save millions of lives for future generations to come
- Pushes Manufacturing Overseas
  - The proposed regulations will eliminate 99.9% of all current US manufacturers
    - Will create a black market, non-taxable, prohibition-like landscape which will ultimately put consumers at far greater risk

# Probable Implications of the Proposed FDA Regulations

- Barriers to Entry

- Current proposed regulations are unrealistic for 99.9% of today's industry
- Cost of the PMTA process: Estimated to be \$3.3mm or higher per SKU
- Eliminates the ability for small to medium size companies to compete, which essentially puts this industry into the hands of Big Tobacco
- This will hinder innovation and the evolution of future harm reduction products

# Closing

- We understand why the FDA is currently proposing regulations on our industry
  - Five Pawns does not agree that this industry should be regulated as a "Tobacco Product", however we do understand the need for fair and reasonable regulation and an achievable pathway for compliance
- The current proposed regulations are anything but fair and achievable
  - Not only will it be impossible for small and medium size companies like ours to comply with the current proposed regulations it will eliminate billions of dollars in revenue for the US economy, put tens of thousands of people out work, and have a negative impact on all smokers and vapers who are looking for harm reduction products

# Closing

- Should the electronic cigarette industry be deemed a tobacco product Five Pawns is in strong support of bill H.R.2058, which would change the grandfather date for newly "deemed tobacco products"

- This would allow small to medium size companies with products currently on the market to stay competitive and provide an achievable pathway for compliance

- We want to thank you for taking the time to listen to our presentation of the detrimental fiscal impact the proposed regulations will have on the electronic cigarette industry and the US economy as a whole

# Five Pawns Pertinent Financials Since Inception 2013 to Present

- Total number of employees: 42
- Total Federal taxes paid: \$5.22mm
- Total CA State taxes paid: \$1.3mm
- Total sales tax collected from the sale of our products: \$3.15mm (estimated)
- Money paid to USPS: \$500k
  - We use USPS for all of our direct to consumer online orders

# Five Pawns Pertinent Financials Since Inception 2013 to Present

- Money paid to US business partners/vendors: \$9.7mm
- Export revenue that we bring back to the United States and is taxed at the highest income rate: \$8.2mm



## Five Pawns: Commitment to Quality

### *The Game-Changing Debut*

Southern California-based **Five Pawns**, the world's leading maker of premium vapor liquid, changed the vaping game in 2012 with its **Signature Line** of "top shelf" vapor liquids, elevating vapor liquid enjoyment to a connoisseur's art akin to fine wine and cuisine. Just as audiences were amazed when film evolved from black and white to color, vapor enthusiasts who previously languished in a world of one-dimensional taste were blown away by Five Pawns' use of up to 11 different ingredients to create a rich flavor spectrum of extraordinary depth.

### *Leading the Way*

Since breaking on the scene in 2012, Five Pawns continues to lead the fledgling vapor liquid industry by delivering flavor and presentation without equal:

- Five Pawns turned the industry on its head in 2013 by creating **Castle Long Reserve**, the first oak barrel-aged vapor liquid that quickly became the most coveted liquid in the world with the 25-barrel first release selling out within a week. Demand has continued to skyrocket for each subsequent Castle Long Reserve release.
- Five Pawns continued to reward sophisticated palates with its groundbreaking 2013 **Mixology Edition** introduction, offering the depth of flavor and character found in vintage spirits.
- On January 1, 2015, Five Pawns again set the vapor world abuzz with its release of **Black Flag Fallen**, the first stainless steel aged vapor liquid blended so that it hits all five tastes known to man: sweet, sour, salty, bitter, and umami.
- As Five Pawns grew its distribution in better vapor shops around the world, it delivered custom chess set displays and tasting notes equal to the task of displaying its premium Five Pawns product and raising the bar for vapor liquid presentation in stores.

### *Unrivaled Care and Craftsmanship*

Five Pawns is meticulous about what goes into each bottle, so that what comes out is pure enjoyment:

- Five Pawns signature vapor liquid is handcrafted in small batches in California from the finest quality, locally-sourced ingredients using a proprietary blending process to create complex, multi-layered flavors.
- Five Pawns uses only ingredients deemed as food-grade by the USP and that is labeled GRAS-approved by the FDA in addition to 99.9 percent pure, certified pharmaceutical-grade nicotine.

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## Five Pawns: Commitment to Quality

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### *Unrivaled Care and Craftsmanship*

- In 2014, Five Pawns began crafting their liquid in a state-of-the-art "clean room" laboratory with ISO 8 verification, meaning the mixing, steeping and bottling rooms are FDA-grade to ensure the highest confidence in final product quality.
- At the same time, Five Pawns introduced a proprietary mixing process that orbitally and gyroscopically mixes liquids to guarantee consistency from bottle to bottle and batch to batch. Five Pawns then took the extra step of incorporating a gravimetric pouring process that ensures even greater accuracy of ingredients.
- Five Pawns was the first to bring traceability to vapor liquid with batch, lot and bottle numbers, plus dates on both the bottle and packaging tube. Five Pawns was also among the first to implement sealed and puncture resistant glass bottles, which are then protected by secondary packaging – an industry first – to eliminate UV exposure that may degrade the liquid.

Five Pawns Signature Vapor Liquid is only available through authorized Five Pawns retailers that offer the premium knowledge and device expertise required to ensure a true Five Pawns experience.

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## **Five Pawns Executive Team**

### **Rodney Jerabek / Chief Executive Officer & Executive Mixologist**

You find his signature on every bottle and imprint on nearly every aspect of the Five Pawns brand. Chief Executive Officer and Executive Mixologist Rodney Jerabek transformed his personal pursuit to create a vapor liquid of extraordinary quality into a company that has turned the vapor liquid industry on its head.

Jerabek was a successful branding designer for some of the world's leading brands when in 2012 he turned his passionate hobby of mixing vapor liquids for himself and friends into what would become the Five Pawns brand of Signature Vapor Liquids. Inspired by his passion for fine food, wine and spirits, Jerabek saw an opportunity to create vapor liquids with more complexity and flavor layers, using only the purest, locally sourced ingredients. While Jerabek fine-tuned his blends, he simultaneously developed a sophisticated chess-based imagery and brand identity that underscored Five Pawns' extraordinary ability to arouse each of the five tastes. When Five Pawns hit the market, the company quickly changed the playing field with its line of "top shelf" premium vapor liquids, presentation at retail and connection with the vapor community.

Rodney lives in Laguna Beach, CA with his young family and enjoys travel, surfing, and his time spent on the golf course. He enjoys Castle Long Reserve along with a nice dinner, fine wine and a great peaty & smoky single malt.

### **Gavin Tucker / Chief Operating Officer**

Gavin Tucker is Five Pawns Chief Operating Officer, responsible for business operations, worldwide sales, global business development, and also oversees the company's regulatory affairs.

Gavin is an experienced leader with an extensive background as an entrepreneur and executive in diverse industries from medical devices to restaurant delivery, real estate and cosmetic products. He has developed several start-ups into competitive enterprises including Coastal Farms Fresh Produce and Apira Science Inc., where he was the key inventor of the first in-home, hand-free laser hair regrowth and skin rejuvenation system.

A former smoker turned vapor enthusiast Gavin lives in Irvine, Calif., and enjoys boating, motorcycles, golf, surfing, playing music, and Five Pawns Gambit along with good food and wine.

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## **Rob Fitzgerald / Chief Financial Officer**

Rob Fitzgerald is Five Pawns Chief Financial Officer, overseeing Five Pawns financial planning and accounting, while also providing strategic input in brand and business development.

Prior to Five Pawns, Rob built a successful career in financial investment and management first in New York City as an equities trader and then in Southern California where he honed his skills in institutional asset liability management at Great Pacific Securities and then established CD underwriting trading desks at Banc Investment Group and D.A. Davidson & Company.

A graduate of Duke University with a degree in Economics, Rob is a world traveler and is an avid golfer. He likes to relax with Five Pawns Absolute Pin while in the company of good friends.

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